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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

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IN THE MATTER OF THE APPLICATION OF  
TONTA HILLS UTILITY COMPANY FOR A  
RATE INCREASE.

DOCKET NO. W-02483A-04-0242

DECISION NO. 67513

OPINION AND ORDER

DATE OF HEARING:

September 15, 2004

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Teena Wolfe

APPEARANCES:

Mr. Robert Metli, LOOSE, BROWN and  
ASSOCIATES, P.C., on behalf of Tonto Hills  
Utility Company; and

Mr. David Ronald, Staff Attorney, Legal  
Division, on behalf of the Arizona Corporation  
Commission's Utilities Division Staff.

**BY THE COMMISSION:**

On March 31, 2004, Tonto Hills Utility Company ("Tonto Hills" or "Company") filed the  
above-captioned rate application with the Arizona Corporation Commission ("Commission").

On April 30, 2004, the Commission's Utilities Division Staff ("Staff") filed a letter indicating  
that the Company's rate application was not sufficient.

On May 14, 2004, the Company filed an amendment to its March 13, 2004 rate application.

On June 14, 2004, Staff filed a letter indicating the Company's rate application was  
sufficient, and classifying the Company as a Class D utility.

On August 4, 2004, a Motion to Request a Public Hearing and Intervene was filed by the  
Tonto Hills Board of Directors. No objections were filed, and on August 18, 2004, by Procedural  
Order, the intervention was granted and the matter was set for hearing.

Staff filed its Staff Report on the application on August 30, 2004.

1 On September 15, 2004, a full public hearing was held before a duly authorized  
2 Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. The Company and  
3 Staff appeared through counsel and presented evidence for the record. Intervenor Tonto Hills Board  
4 of Directors did not appear. Several members of the public appeared and made public comment.

5 Following the hearing and post hearing filings by the Company and by Staff, this matter was  
6 then taken under advisement pending submission of a Recommended Opinion and Order to the  
7 Commission.

8 \* \* \* \* \*

9 Having considered the entire record herein and being fully advised in the premises, the  
10 Commission finds, concludes, and orders that:

11 **FINDINGS OF FACT**

12 1. Tonto Hills is an Arizona public service corporation that provides public water utility  
13 service to approximately 116 customers in an area located in Maricopa County, Arizona. The  
14 Company's service territory abuts the far northeast corner of the City of Scottsdale on Cave Creek  
15 Road where it enters the Tonto National Forest.

16 2. Tonto Hills is organized as an S corporation and provides water utility service under  
17 authority of a Certificate of Convenience and Necessity ("Certificate") granted by the Commission in  
18 Decision No. 55491 (March 19, 1987).

19 3. The Company's present rates and charges were approved in Decision No. 61109  
20 (August 28, 1998).

21 4. On March 31, 2004, the Company filed an application requesting authority to increase  
22 its rates and charges for water service. The Company's filing is based on a test year ended December  
23 31, 2002.

24 5. On April 30, 2004, Staff filed a letter informing the Company that its application had  
25 not met the sufficiency requirements of the Commission's rules, and listing the deficiencies of the  
26 application.

27 6. On May 14, 2004, the Company filed a response to Staff's April 30, 2004  
28 insufficiency letter.

1           7.       On June 14, 2004, Staff filed a letter informing the Company that its application, with  
2 the adjustments received on May 14, 2004, met the sufficiency requirements of the Commission's  
3 rules, and classifying Tonto Hills as Class D.

4           8.       On August 4, 2004, a Motion to Request a Public Hearing and Intervene was filed by  
5 the Tonto Hills Board of Directors. No objections to the intervention request and request for hearing  
6 were filed.<sup>1</sup>

7           9.       On August 18, 2004, a Procedural Order was issued granting intervention to the Tonto  
8 Hills Board of Directors, and granting its request that a hearing on the application be held. The  
9 hearing was set for September 15, 2004.

10          10.       The Tonto Hills Board of Directors made no further filings in this docket and entered  
11 no appearance at the hearing.

12          11.       In the form of a late-filed exhibit filed on September 29, 2004, the Company filed  
13 verification that it mailed each of its customers notice of the hearing on August 23, 2004.

14          12.       Staff filed its Staff Report on the application on August 30, 2004.

15          13.       The hearing was held as scheduled on September 15, 2004.

16          14.       At the hearing, several customers provided public comment in favor of Staff's  
17 recommendations.

18          15.       Staff's Consumer Services section reported at the hearing that it received 22 negative  
19 opinions from the Company's 116 customers regarding the proposed rate increase.

20          16.       Tonto Hills' application proposed operating revenues of \$194,617, which would result  
21 in a revenue increase of \$83,000, or 74.36 percent, over test year revenues of \$111,617, and would  
22 increase the typical monthly residential bill at the median usage of 5,261 gallons from \$75.77 to  
23 \$125.77, for an increase of \$50.00, or 65.99 percent.

24          17.       On August 30, 2004, Staff filed testimony in this matter that included its analysis of  
25 the rate application and the results of its regulatory audit. In its filing, Staff proposed annual  
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27 <sup>1</sup> A Public Comment letter from Mr. James F. Skane was docketed on September 17, 2004. Mr. Skane's name was listed  
28 on the letter from the Tonto Hills Board of Directors requesting intervention and a public hearing. Mr. Skane commented  
that while the Company was not opposed to an open hearing, Mr. Skane had not authorized the inclusion of his name on  
the August 4, 2004 letter.

1 revenues for the Company of \$126,769, which represents an increase of \$15,152, or 13.57 percent  
 2 over adjusted test year revenues of \$111,617. Staff's recommended rates would increase the typical  
 3 monthly residential bill at the median usage of 5,261 gallons from \$75.77 to \$80.06, for an increase  
 4 of \$4.29, or 5.7 percent.

5 18. Tonto Hills' present and proposed rates, and the rates proposed by Staff, are as  
 6 follows:

	<u>Present Rates</u>	<u>Proposed Rates</u> <u>Company</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$ 40.00	\$ 70.00	\$ 40.00
3/4" Meter	40.00	70.00	40.00
1" Meter	90.00	158.00	100.00
1 1/2" Meter	115.00	200.00	200.00
2" Meter	155.00	270.00	320.00
3" Meter	N/A	490.00	640.00
4" Meter	N/A	630.00	1,000.00
6" Meter	N/A	840.00	2,000.00
Gallons Included in Minimum	0	0	0
<u>COMMODITY RATES:</u>			
Per 1,000 Gallons – all gallonage	\$ 6.80		
0 to 8,000 gallons		\$ 10.60	
8,001 – 16,000 gallons		12.60	
Over 16,000 gallons		14.10	
0-4,000 gallons			\$ 6.80
4,001 – 13,000 gallons			10.20
Over 13,000 gallons			12.30
<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
(Refundable pursuant to A.A.C. R14-2-405)			
5/8" x 3/4" Meter	\$ 600.00	\$ 800.00	\$ 800.00
3/4" Meter	600.00	800.00	800.00
1" Meter	700.00	900.00	900.00
1 1/2" Meter	850.00	1,100.00	1,100.00
2" Meter	1,150.00	1,500.00	1,500.00
2" Compound Meter	1,720.00	2,245.00	N/A
3" Meter	N/A	N/A	2,245.00
4" Meter	N/A	N/A	3,200.00
6" Meter	N/A	N/A	5,875.00

SERVICE CHARGES:

Establishment	\$ 15.00	\$ 15.00	\$ 15.00
Establishment (After Hours)	25.00	25.00	25.00
Reconnection (Delinquent)	25.00	25.00	25.00
Reconnection (Delinquent & After Hours )	N/A	50.00	25.00
Late Fee	N/A	15.00	1.50%
Deposit	*		*
Deposit Interest	*	0.00%	*
Reestablishment (Within 12 Months)	**	**	**
Deferred Payment (per month)	1.50%	1.50%	1.50%
NSF Check	\$ 25.00	\$ 25.00	\$ 25.00
Meter Reread (If Correct)	\$ 15.00	\$ 15.00	\$ 15.00
Meter Test (If Correct)	***	***	***
<u>Monthly Service Charge for Fire Sprinklers:</u>	****	****	****

\* Per Commission rule A.A.C. R-14-2-403(B).

\*\* Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

\*\*\* \$35.00 plus cost of the bench test

\*\*\*\* 1.00% of monthly minimum for a comparably sized meter connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

19. The Company's application proposed an Original Cost Rate Base ("OCRB") of \$603,390. Staff recommends an OCRB of \$464,733.

20. Staff's proposed adjustments to rate base include \$136,292 of reductions to Plant in Service that relate to removal of the Company's well, which is not in operation. The Company currently provides its customers water from a Central Arizona Project ("CAP") water allocation treated by the City of Scottsdale ("Scottsdale") for its water supply. According to the Staff Report, the Company owns two wells located on Forest Service property. Only one of those two wells was operable during the test year. It was producing 11 gallons per minute ("gpm") until the pump motor on the well burned out on April 26, 2004. The application states that water from the well has a high level of radioactivity that must be removed by treatment before delivery to the Company's system.

21. Staff proposes the removal of \$50,197 from the Wells and Springs account representing the well, which is not in operation and therefore no longer used and useful. Staff also proposes removal of \$47,247 from the Pumping Equipment account because the pump on the well is burned out and no longer in service. Also in relation to the well, Staff proposes removal of the

1 \$38,848 adjusted balance of the Water Treatment Equipment account, because without operation of  
2 the well, the treatment equipment is out of service and not used and useful.

3 22. The Staff Report states that the most recent lab analysis by the Company indicated that  
4 the arsenic level in the Company's well was 14 µg/l, and that based upon this level, the Company  
5 would be required to implement a plan to address compliance with the arsenic MCL if it should  
6 choose to re-establish use of the well.<sup>2</sup> Staff recommends that the Company use only CAP water to  
7 avoid the costs associated with treating its groundwater supply for arsenic and radiochemicals.

8 23. At the hearing, the Company's witness stated that it does not believe that the test result  
9 reported by the Arizona Department of Environmental Quality ("ADEQ") master plan referred to by  
10 Staff is accurate. The Company introduced an analysis report dated April 25, 2001 that included  
11 results from an arsenic test from the Company's well indicating an arsenic level of 8.2 µg/l which is  
12 below the new EPA 10 µg/l MCL requirement. The Company's witness testified that an additional  
13 arsenic test would have been due in April of 2004, but that no test was conducted then, due in part to  
14 the fact that the well was not in service at that time.

15 24. At the hearing, Staff's witness agreed that the Company's April 25, 2001 test results  
16 indicated an arsenic level of 8.2 µg/l. Staff also stated that arsenic concentrations can fluctuate  
17 depending on the type of pumping that is occurring, water temperatures, and aquifer levels. Staff  
18 remains concerned with the potential necessity for arsenic remediation remains if the well is put back  
19 in service.

20 25. The Company and Staff presented conflicting opinions regarding the likelihood of  
21 continuing production from the well. The Company's witness stated that the water level had risen to  
22 332 feet since April 2004, when the pump burned out and the well's water level had dropped to  
23 below 500 feet. While the Company's witness anticipates that the well will return to its normal level  
24 of 214 feet, Staff's witness is concerned with the slow recharging of the aquifer, because the water  
25 level has not already returned to its previous 214 foot level.

26 26. Tonto Hills entered into an Agreement for Treatment and Transportation of Water

27 <sup>2</sup> The United States Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level  
28 ("MCL") in drinking water from 50 micrograms per liter ("µg/l") to 10 µg/l. The compliance effective date for the new  
arsenic MCL is January 23, 2006.

1 Delivered through the CAP Canal ("Agreement") with Scottsdale on January 21, 2000. Tonto Hills  
2 has already purchased 30 acre-feet of treatment capacity from Scottsdale for the Company's 71 acre-  
3 foot CAP allocation.

4 27. The Agreement states that transportation of Tonto Hills' CAP allocation to Tonto  
5 Hills' delivery point is conditioned upon Scottsdale's receipt of Tonto Hill's allocation at the CAP  
6 delivery point. The delivery point for Tonto Hill's CAP allocation to Scottsdale is a CAP canal pump  
7 station, and the delivery point for treated water from Scottsdale to Tonto Hills is a 2-inch meter  
8 located near Tonto Hills' storage tank. The Agreement states that Tonto Hills acknowledges that it  
9 must make its own provisions to protect itself and its customers in the event of drought, canal outage,  
10 or other loss of CAP water, and that Scottsdale is not obligated to supply water to Tonto Hills unless  
11 an equivalent amount of CAP Municipal and Industrial water is first received by Scottsdale.

12 28. Under the terms of the Agreement, Tonto Hills may increase its purchased treatment  
13 capacity from Scottsdale on a yearly basis. The one-time treatment capacity costs are based on  
14 Scottsdale's development fees. Tonto Hills also pays regular metered potable water rates to  
15 Scottsdale for delivered water.

16 29. Tonto Hills' application included a proposal for a hook-up fee ("HUF") tariff to assist  
17 in the purchase of treatment and transport capacity from Scottsdale, under the terms of the  
18 Agreement, for the additional 41 acre-feet of its CAP allocation to meet future demand.

19 30. Staff supported the Company's HUF proposal and recommended that the Commission  
20 adopt the specific tariff language included as an attachment to its Staff Report. Staff's proposed HUF  
21 tariff is attached hereto as Exhibit A. This recommendation is reasonable and will be adopted.

22 31. At the hearing, the Company concurred with most of Staff's recommended  
23 adjustments to its application. The Company disagreed, however, with Staff's recommendation to  
24 remove the Company's well from rate base. The Company proposes that the well not be removed  
25 from rate base because it wants to repair the pump and keep the well as a backup water supply source  
26 in addition to its CAP supply.

27 32. The Company's consultant, Mr. Leonard L. Dueker, testified on behalf of the  
28 Company at the hearing. Mr. Dueker testified that in the event of an emergency failure of either the

1 CAP canal or of Scottsdale's water treatment and transmission system, the Company would  
2 experience an outage if it has no backup well. He stated that if the well is removed from rate base,  
3 the Company would have to rely on water hauling for its backup water supply.

4 33. The Company's witness testified that retention of the well as a backup water source  
5 would require rate recognition of the capitalized costs of replacing the pump on the well, which is  
6 currently not functioning. In addition, he stated that rates would have to include the expenses  
7 associated with maintenance of the backup well, including water testing costs and standby power  
8 costs.

9 34. The Company agreed to make a post-hearing filing showing the revenue and rate  
10 effects of keeping the disputed well in rate base, while accepting Staff's other adjustments to the  
11 Company's filing. Staff agreed to make a post-hearing filing in response.

12 35. On September 29, 2004, the Company docketed a Notice of Filing Comparative  
13 Statement of Income, Expense, and Rates; Certification of Notice; and Late Filed Exhibit A-3. A  
14 Procedural Order was issued on October 1, 2004 setting the date of October 12, 2004 for Staff to file  
15 its response to the Company's September 29, 2004 filing, and extending the timeclock. Staff  
16 docketed its Response and Notice of Filing Late Filed Exhibit on October 12, 2004.

17 36. The Company's Comparative Statement of Income, Expense, and Rates proposes that  
18 in order to keep the well as a backup supply, the Wells and Springs account be set at \$55,697 as  
19 opposed to Staff's proposal of \$0; that the Pumping Equipment account be set at \$47,247 as opposed  
20 to Staff's proposal of \$0; and that the Water Treatment Equipment account be set at \$38,848 as  
21 opposed to Staff's proposal of \$0. The Company's proposal would increase rate base from Staff's  
22 recommended \$464,733 to \$506,753.

23 37. In addition to the \$42,020 increase to rate base, the Company estimates that its  
24 proposal to keep the well as a backup supply would increase operating expenses by a total of \$21,897  
25 over Staff's proposed operating expenses of \$86,913 without the well, for total operating expenses of  
26 \$108,810.

27 38. According to the Company's calculations, the cost of keeping the well in rate base as a  
28 backup water source would increase the Company's revenue requirement from Staff's recommended



\$126,769 to \$152,290, or 20.13 percent.

39. As requested at the hearing, Staff filed a Response to the Company's September 29, 2004 filing. Staff stated in its Response that it remains of the opinion that the Company's well is not needed as backup supply and should not be included in rate base. The Response detailed several adjustments to the Company's proposal that Staff believes would be necessary if the well were to be retained as a backup well. Based on its analysis, Staff determined that the Company's proposal to maintain the existing well as a backup water source would increase the Company's revenue requirement by \$14,716, or 11.61 percent, from \$126,769 to \$141,485, if no arsenic treatment is required.

40. The Company calculates that its proposal would result in an increase of an additional \$17.50 in the monthly usage charge for residential customers over Staff's proposed rates and an increase in the commodity rate for second tier usage from \$10.20 per thousand gallons to \$10.80, and for usage in excess of 13,000 gallons, an increase from \$12.30 per thousand gallons to \$13.05. The Company estimates that this would result in a cost of an additional \$18.33 per customer per month.

41. In its Response, Staff stated that the rate design the Company proposed in its September 29, 2004 filing would result in a \$9,930 revenue shortfall from the Company's proposed revenue requirement with the backup well. Staff also believes that the Company's proposed rate design would place a disproportionate percentage of the incremental revenue requirement in the monthly minimum charge. Staff's Response included the following schedule comparing Staff's and the Company's calculation of the rate effects of the Company's proposal to include the backup well in rates:

	<u>Present Rates</u>	<u>Original Staff Recommended</u>	<u>Company Proposed With Backup</u>	<u>Staff Recommended With Backup</u>	<u>Staff Recommended With Backup and Estimated Arsenic Plan and O&amp;M</u>
<u>MONTHLY USAGE CHARGE:</u>					
5/8" x 1/4" Meter	\$ 40.00	\$ 40.00	\$ 57.50	\$ 45.00	\$ 53.75
3/4" Meter	40.00	40.00	57.50	45.00	53.75
1" Meter	90.00	100.00	*	112.50	135.00

1 ½" Meter	115.00	200.00	*	225.00	270.00
2" Meter	155.00	320.00	*	360.00	430.00
3" Meter	N/A	640.00	*	720.00	860.00
4" Meter	N/A	1,000.00	*	1,125.00	1,350.00
6" Meter	N/A	2,000.00	*	2,250.00	2,700.00

Gallons included in minimum

Excess of Minimum – per 1,000 gallons	\$6.80				
From 0 to 8,000 gallons	N/A	N/A	N/A	N/A	N/A
From 8,001 to 16,000 gallons	N/A	N/A	N/A	N/A	N/A
Over 16,000 gallons	N/A	N/A	N/A	N/A	N/A
From 0 to 4,000 gallons	N/A	\$ 6.80	\$ 6.80	\$ 7.55	\$ 8.95
From 4,001 to 13,000 gallons	N/A	10.20	10.75	11.40	13.45
Over 13,000 gallons	N/A	12.30	12.85	13.50	16.10

\* The Company did not provide new information for the other meter sizes.

42. For illustrative purposes, Staff also provided its estimate that arsenic treatment for the well could result in an additional rate base increase of \$142,643 and an additional increase in operating expenses of \$13,771. Staff stated that it does not recommend any rate recovery for arsenic treatment facilities since no such plant has been installed.

43. Under the Company's proposal, even if adjusted as Staff recommends, customers' rates would increase substantially in order to maintain the well as a backup water source. The Company's witness is of the opinion that the cost of water hauling as a backup supply source would be considerably higher than the \$25.00 per thousand gallons that he stated Tonto Hills has paid to haul water from the Town of Carefree in the past. He also stated that water might not be available for hauling from Carefree, Scottsdale, Cave Creek, or Phoenix, but did not provide any evidence that those entities would not sell water to Tonto Hills for hauling in the event of an emergency. No evidence was presented comparing potential water hauling costs to the capital costs of repairing the well pump and expense of maintaining the well and water treatment system. Neither was any evidence presented relating to the costs of purchasing alternative backup capacity. In addition, uncertainty remains regarding whether the Company might be required to install arsenic treatment facilities if it were to keep the well in service as a backup source. As for water testing expenses for the proposed backup well, there is currently no agreement with the Maricopa County Environmental Services Department ("MCESD") to reduce its water testing requirements if the well were used as a backup water supply. Based on the lack of a cost-benefit analysis, we cannot make a determination at this time that the costs of placing the Company's well back in service would be a prudent means of

1 providing a backup water supply source for Tonto Hills' 116 customers.

2 44. Because the well has been out of service and not used since April of 2004, we agree  
3 with Staff that the well is not used and useful and should not be included in rate base. Likewise,  
4 operating expenses for the non-operational well should not be included in customers' rates. This  
5 does not mean that the Company is prohibited from making the capital repairs necessary to use the  
6 well in the future. If the Company decides to make the investment necessary to provide for a backup  
7 emergency supply source in lieu of relying on water hauling in the event of an unforeseen emergency  
8 CAP failure, that investment will be considered in a future rate case. We will require that if the  
9 Company seeks rate recovery for an emergency backup water supply in its next rate filing, it shall  
10 provide a cost-benefit analysis showing that its proposal provides the most cost-effective means of  
11 providing an emergency backup water supply.

12 45. Aside from the adjustments relating to the non-operational well, the Company did not  
13 object to Staff's proposed adjustments to Plant in Service and corresponding adjustments to rate base.  
14 Staff's proposed adjustments as they appear in the Staff Report are reasonable and will be adopted.

15 46. The Company did not file Reconstruction Cost New Less Depreciation Rate Base  
16 schedules. Therefore, the Company's fair value rate base ("FVRB") is equal to its OCRB of  
17 \$464,733.

18 47. The Staff Report states that Staff verified and accepts the Company's test year total  
19 operating revenue of \$111,617, which we adopt.

20 48. The Company's application as filed included total operating expenses of \$127,042.  
21 Staff proposed several adjustments to operating expenses for a net decrease of \$40,129 to the  
22 Company's proposed test year operating expense level, from \$127,042 to \$86,913. Staff's proposed  
23 adjustments include an increase of \$6,220 representing the annualization of Purchased Water expense  
24 based on test year gallons sold; a reduction of \$30,333 to the Company's proposed \$33,333 of Rate  
25 Case expense to amortize Staff's recommended \$9,000 level of Rate Case expense over three years;  
26 an increase of \$736 to Depreciation expense to reflect the application of Staff's recommended  
27 depreciation rates to Staff's adjusted Plant in Service balances; and an \$86 decrease to Income Tax  
28 expense.

1           49.     Staff's proposed adjustments to operating expenses also include removal of \$3,800 of  
2 double-counted Outside Services expense already included in the CAP Allocation plant account;  
3 reclassification of \$4,785 of costs from Outside Services that should have been capitalized, including  
4 \$1,285 to the CAP Allocation plant account and \$3,500 to the Water Treatment Equipment plant  
5 account; and reclassification of \$1,404 from Rent Expense to Water Treatment Equipment plant.

6           50.     Staff also proposed several other adjustments to operating expenses related to its  
7 recommendation that the Company's non-operational well be removed from rate base. These  
8 adjustments, which comprise an additional reduction of \$6,667 to the Company's proposed test year  
9 operating expenses, include removal of Purchased Power expense of \$2,582; removal of Water  
10 Treatment Chemicals expense of \$405; removal of \$361 from Repairs and Maintenance expense for  
11 water treatment salt; a reduction of \$2,249 resulting from Staff's recommended annual Water Testing  
12 expense of \$427; and a reduction to Outside Services of \$1,080 for water testing costs.

13           51.     Aside from the adjustments to operating expenses related to the non-operational well,  
14 the Company did not object to Staff's proposed operating expense adjustments, including rate case  
15 expense. Staff's recommended adjustments are reasonable and we will adopt them, for a test year  
16 operating expense level of \$86,913.

17           52.     Based on results for the test year ended December 31, 2002, with the adjustments  
18 adopted herein, Tonto Hills realized operating revenue of \$111,617 which, with adjusted operating  
19 expenses of \$86,913, resulted in an operating income of \$24,704, for a rate of return of 5.32 percent  
20 on a FVRB of \$464,733.

21           53.     Based on its analysis, Staff recommended a revenue level of \$126,769 and operating  
22 income of \$39,856. Staff's recommended revenues result in a rate of return of 8.58 percent on the  
23 Company's FVRB of \$464,733.

24           54.     We find Staff's revenue recommendations reasonable and will adopt them.

25           55.     Staff recommended that its proposed rates and charges be approved, and also  
26 recommended the following:

- 27                   1)     That the Company be required to deposit all funds collected by the Company  
28                         as off-site facilities Hook-Up Fees into a separate interest bearing trust

account and to use the funds solely for the purposes of paying for the costs of off-site facilities and repayment of loans obtained for the installation of off-site facilities;

- 2) That the Company be ordered to docket, by April 15<sup>th</sup> of each year, annual water Hook-Up Fee account reports which cover the calendar year period and disclose:
  - a. Name of each entity paying Hook-Up Fee in the previous calendar year;
  - b. Amount of Hook-Up Fee paid by each entity in the previous calendar year;
  - c. Description of utility plant constructed with Hook-Up Fee funds in the previous calendar year;
  - d. Balance of Hook-Up Fee account at the end of the previous calendar year;
  - e. Interest earned on Hook-Up Fee account in previous calendar year; and
  - f. Any other pertinent information that may be required by Staff.
- 3) That the Company be required to maintain its books and records in accordance with the NARUC Uniform System of Accounts that has been adopted by the Commission;
- 4) That in addition to the collection of its regular rates and charges, the Company be ordered to collect from its customers their proportionate share of any Privilege, Sales or Use Tax as provided for in A.A.C. R14-2-409(D); and
- 5) That the Company be required to use the depreciation rates as shown in Exhibit 4 of Staff's Engineering Report.

56. The Staff Report states that MCES reported that the Company's water system is in total compliance with Arizona's drinking water rules, and is delivering water that does not exceed any maximum contaminant level, and meets the water quality standards of the Safe Drinking Water Act.

57. The Staff Report states that the Company has a Cross-Connection/Backflow Prevention Tariff and a Curtailment Plan Tariff on file.

58. The Staff Report states that the Company has no outstanding compliance issues with

1 the Commission.

2 59. The Staff Report states that because the Company pumps less than 250 acre-feet of  
3 water per year, it is considered a small provider by the Arizona Department of Water Resources  
4 ("ADWR"), and is not subject to ADWR's gallons per capita per day limit and conservation rules.

5 60. Staff's recommendations are reasonable and should be adopted.

### 6 CONCLUSIONS OF LAW

7 1. Applicant is a public service corporation within the meaning of Article XV of the  
8 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

9 2. The Commission has jurisdiction over Applicant and of the subject matter of the  
10 application.

11 3. Notice of the application was given in accordance with the law.

12 4. Staff's recommended rates and charges are reasonable and should be approved.

13 5. Staff's recommendations, as set forth in Findings of Fact Nos. 30 and 55, are  
14 reasonable and should be adopted.

### 15 ORDER

16 IT IS THEREFORE ORDERED that Tonto Hills Utility Company is hereby directed to file  
17 on or before January 31, 2005, revised rate schedules setting forth the following rates and charges:

#### 18 MONTHLY USAGE CHARGE:

19 5/8" x 3/4" Meter	\$ 40.00
20 3/4" Meter	40.00
21 1" Meter	100.00
22 1 1/2" Meter	200.00
2" Meter	320.00
23 3" Meter	640.00
4" Meter	1,000.00
24 6" Meter	2,000.00

25 Gallons Included in Minimum	0
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#### 26 COMMODITY RATES:

27 0-4,000 gallons	\$ 6.80
4,001 - 13,000 gallons	10.20
28 Over 13,000 gallons	12.30

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

5/8" x 3/4" Meter	\$ 800.00
3/4" Meter	800.00
1" Meter	900.00
1 1/2" Meter	1,100
2" Meter	1,500
3" Meter	2,245.00
4" Meter	3,200.00
6" Meter	5,875.00

SERVICE CHARGES:

Establishment	\$ 15.00
Establishment (After Hours)	25.00
Reconnection (Delinquent)	25.00
Reconnection (Delinquent & After Hours )	25.00
Late Fee	1.50%
Deposit	*
Deposit Interest	*
Reestablishment (Within 12 Months)	**
Deferred Payment (per month)	1.50%
NSF Check	\$ 25.00
Meter Reread (If Correct)	\$ 15.00
Meter Test (If Correct)	***

Monthly Service Charge for Fire Sprinklers: \*\*\*\*

\* Per Commission rule A.A.C. R-14-2-403(B).

\*\* Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

\*\*\* \$35.00 plus cost of the bench test

\*\*\*\* 1.00% of monthly minimum for a comparably sized meter connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after February 1, 2005.

IT IS FURTHER ORDERED that Tonto Hills Utility Company shall notify its customers of the revised rates and charges authorized herein, and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing.

1 IT IS FURTHER ORDERED that Tonto Hills Utility Company shall file with the  
2 Commission, within 60 days from the effective date of its new rates, a copy of the notice it sends to  
3 its customers of the new rates and charges.

4 IT IS FURTHER ORDERED that the Hook-Up Fee Tariff attached hereto as Exhibit A is  
5 hereby approved.

6 IT IS FURTHER ORDERED that Tonto Hills Utility Company shall file a copy of the Hook-  
7 Up Fee Tariff attached hereto as Exhibit A within 60 days from the from the effective date of its new  
8 rates.

9 IT IS FURTHER ORDERED that Tonto Hills Utility Company is hereby directed to comply  
10 with the Staff recommendations set forth in Findings of Fact No. 55.

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IT IS FURTHER ORDERED that if Tonto Hills Utility Company seeks rate recovery for an emergency backup water supply in its next rate filing, it shall provide a cost-benefit analysis showing that its proposal provides the most cost-effective means of providing an emergency backup water supply.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

  
CHAIRMAN

  
COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 20<sup>th</sup> day of Jan., 2005.

  
BRIAN C. McNEIL  
EXECUTIVE SECRETARY

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

TW:mj

SERVICE LIST FOR:

TONTO HILLS UTILITY COMPANY

DOCKET NO.:

W-02483A-04-0242

Robert J. Metli  
11209 N. Tatum Blvd., Ste. 130  
Phoenix, Arizona 85028

Leonard L. Dueker  
Tonto Hills Utility Company  
11802 E Blue Wash Road  
Cave Creek, Arizona 85331

Jennifer Amundson, Secretary  
Tonto Hills Board of Directors  
42033 North Old Mine Road  
Cave Creek, Arizona 85331

Christopher Kempley, Chief Counsel  
Legal Division  
ARIZONA CORPORATION COMMISSION  
1200 W. Washington Street  
Phoenix, Arizona 85007

Ernest Johnson, Director  
Utilities Division  
ARIZONA CORPORATION COMMISSION  
1200 W. Washington Street  
Phoenix, Arizona 85007

UTILITY: Tonto Hills Utility Company SHEET NO. 1  
DOCKET NO. W-02483A-04-0242  
DECISION NO. \_\_\_\_\_  
EFFECTIVE DATE: \_\_\_\_\_

**OFF-SITE WATER FACILITIES HOOK-UP FEE TARIFF  
FOR  
TONTA HILLS UTILITY COMPANY**

**I. Purpose and Applicability**

The purpose of the hook-up fees payable to Tonto Hills Utility Company ("the Company") pursuant to this tariff is to equitably apportion the costs of purchasing water treatment and transport capacity from the City of Scottsdale that will be required to serve new customers.

These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to the Company's establishment of service, as more particularly provided below.

**II. Definitions**

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections.

"Company" means Tonto Hills Utility Company, an Arizona corporation.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Arizona Corporation Commission (same as line extension agreement).

"Off-Site Facilities" means treatment and transport capacity purchased from the City of Scottsdale to treat and transport the Central Arizona Project ("CAP") allocation owned by the Company, which facilities will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial, or other uses, regardless of meter size.

**III. Off-Site Hook-Up Charges**

Each new service connection shall pay the total off-site facilities hookup fee, derived from the following table:

UTILITY: Tonto Hills Utility Company SHEET NO. 2

DOCKET NO. W-02483A-04-0242

DECISION NO. \_\_\_\_\_

EFFECTIVE DATE: \_\_\_\_\_

OFF-SITE FACILITIES HOOKUP FEE TABLE		
Meter Size	NARUC Meter Factor	Total Fee
5/8" x 3/4 "	1	\$3,000
3/4"	1.5	\$4,500
1"	2.5	\$7,500
1- 1/2 "	5	\$15,000
2"	8	\$24,000
3"	17.5	\$52,500
4"	30	\$90,000
6"	62	\$186,000

#### IV. Terms and Conditions

- (A) Assessment of One Time Hook-Up Charge: The hook-up fee may be assessed only once per service connection, or lot within a platted subdivision (similar to meter and service line installation charges). However, this provision does not exempt from the hook-up fee, any newly created parcel(s) which are the result of further subdivision of a lot or land parcel and which do not have a service connection.
- (B) Use of Off-Site Hook-Up Fee: Hook-Up fees may only be used to pay for the capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off site hook-up fees shall not be used for repairs, maintenance, plant replacements, or operational purposes.
- (C) Time of Payment:
- (1) In the event that the Applicant is required to enter into a main extension agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406 (B), payment of the charges required hereunder shall be made by the Applicant within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the main extension agreement in accordance with R14-2-406(M).
  - (2) In the event that the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.
- (D) Failure to Pay Charges; Delinquent Payments: – Under no circumstances will the Company set a meter or otherwise allow service to be established if the Applicant has not paid in full all charges as provided by this off-site hook-up fee tariff.

UTILITY: Tonto Hills Utility Company SHEET NO. 3  
DOCKET NO. W-02483A-04-0242  
DECISION NO. \_\_\_\_\_  
EFFECTIVE DATE: \_\_\_\_\_

- (E) Off-Site Hook-Up Fee Non-refundable: - The amounts collected by the Company pursuant to the off-site hook-up fee shall be non-refundable contributions in aid of construction.
- (F) Use of Charges Received: All funds collected by the Company as off-site hook-up fees, shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.
- (G) All funds collected by the Company as Off-site facilities Hook-up Fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.
- (H) Off-Site Hook-Up Fees In Addition to Other Charges: The off-site hook-up fees shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff
- (I) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fee or the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission (Commission), any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

Effective Date: \_\_\_\_\_

Approved for Filing in Compliance with  
Decision No. \_\_\_\_\_

